



Coast Guard HR Flag Voice 159

A COMMANDING OFFICER'S GUIDE TO THE THRIFT SAVINGS PLAN FOR MILITARY MEMBERS

The Thrift Savings Plan (TSP) is a tool available to commanding officers to enhance their members' quality of life and boost retention. Commanding officers and officers-in-charge are responsible for ensuring all members of their command know about this opportunity to save, invest, and create wealth. Junior officers, Chief Petty Officers and leading petty officers have an important leadership role to play in this educational process.

Personnel who save regularly early in their military service are likely to be more satisfied with their military careers than those who believe military service provides no opportunity to save. Similarly, junior petty officers and officers will likely find the ability to generate tax-deferred savings to be an important benefit of service.

What is the Thrift Savings Plan?

The Thrift Savings Plan is a Federal Government-sponsored savings and investment plan that will allow most service members to save up to \$11,000 in 2002. Studies have shown that it is difficult for our members to save. TSP will make it easy for members to save, since members will be able to participate through payroll deduction. And since it's a government-sponsored program, **all commanders may provide information about TSP to their people.**

Contributions to the TSP are made with pre-tax dollars and earnings grow tax free until withdrawn. Regular savings account deposits do not provide similar advantages. And, the sooner our members begin to save, the better off they will be.

The law provides for paying matching funds as an additional incentive tool. None of the services have plans to do so at the current time.

TSP Is Not For Everyone.

Not every member will be able to afford to participate in TSP. Additionally, all TSP investment funds (other than the government bond fund) have risks associated with them. Not every member will want to invest his money in a fund that presents the risk of loss. Commanders should ensure their people make an informed decision on whether or where to invest their money based on the historical records of all TSP funds.

Additionally, TSP is not like a checking or savings account. The Internal Revenue Code imposes penalties on most withdrawals if a member makes a withdrawal prior to the year in which they turn 59

1/2. Members must be aware of this distinction and must realize that they are saving for their future. They need to know they will not be able to draw on their TSP contributions (e.g., a bonus) for short-term needs without incurring penalties.

Who Should Enroll in the Thrift Savings Plan?

The vast majority of new recruits are single and most sign up for the Montgomery GI Bill, making 12 payments of \$100 per month. The end of that year would be an ideal time for commanders to encourage their personnel to consider participating in TSP. By learning to save early in their careers, members will develop the life-long pattern of saving and have a more secure financial future.

There are other alternatives to participating in the thrift savings plan -- a Traditional Individual Retirement Account (IRA) and a Roth IRA. The Traditional IRA is most like the TSP and permits contributions up to \$2000/year per individual tax free (below a specified income level), but the distributions after age 59 1/2 are taxed as ordinary income. The Roth also permits contributions up to \$2000/year but are not tax free, however the distributions after age 59 1/2 are tax free. Both \$2000 limits will increase over the few years as part of the recent tax reduction package passed by Congress. Each has its own advantages and disadvantages. More information to make informed choices can be found on the web sites noted in Flag Voice 155. However, most people don't have the discipline to send some of their pay, after received, off to an IRA account. So for the vast majority, socking the money away in the TSP before you even see it is a wise financial plan. And, as explained below, **if you don't begin your TSP during one of the "open seasons," should you receive a bonus, you will not be able to place any part into the TSP.**

Similarly, young petty officers and officers, who are often both more inclined and better able to save than our most junior members, should be taught how TSP will help them gain greater financial security. This is particularly true of petty officers who are eligible for bonuses. As an important retention tool available to the commander, these members will have the option to contribute all or part of that bonus in this government-sponsored savings plan.

Personnel who believe their chain of command cares about their financial are more likely to remain on active duty.

What If A Member Separates Before Serving Twenty Years?

Unlike our military retirement system, members contribute their own pay to TSP. Whatever amounts they contribute and the earnings attributable to those contributions belong to them. They are the member's to keep even if the member does not serve the necessary time to qualify for retirement.

Additionally, should members affiliate with a reserve component after leaving active duty, they may continue contributions to their TSP account from their reserve pay. This feature of the plan should be stressed as an additional reason for personnel leaving active duty to affiliate with the Reserve.

Open Season Rules May Preclude Members From Participating Unless the Chain of Command Informs Them!

In order to contribute money from special, incentive, or bonus pay, members must be contributing from their basic pay. Members may only elect to contribute from basic pay during an open season. Members will be able to enroll in the special open season **beginning 09 October 2001 and ending 31 January 2002**. Thereafter, they will have two opportunities each year to enroll. As a consequence, commanders must ensure their personnel who will become eligible for a bonus installment or special or incentive pay are aware that they must be contributing from basic pay in order to invest their bonus or special pay. Getting the word out should enhance your ability to retain qualify personnel.

Special Rules for Deployment to a Combat Zone/Qualified Hazardous Duty Area.

As mentioned above, the total amount most members will be able to contribute in 2002 is \$11,000. However, members who serve in a combat zone or qualified hazardous duty area will be able to contribute **up to \$40,000**.

Commanders should ensure their people are aware of the open season rules in order that they may contribute the greatest amount possible to TSP.

The next Flag Voice will contain more specific Coast Guard implementation information.

Regards, FL Ames



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